



# Grant Expenditure Review

## For Alberta Health

July 14, 2020

Corporate Internal Audit Services activities conform with the *International Standards for the Professional Practice of Internal Auditing*

Note:

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- (b) information that would reveal information about an audit by the Chief Internal Auditor of Alberta



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# 1.0 Background Information

On September 25, 2017, Alberta Health (Province) entered into grant agreements with a not-for-profit organization AIDS Outreach Community Harm Reduction Education Support Society (ARCHES) with respect to five separate programs and/or initiatives. The bulk of this funding is related to the ARCHES supervised consumption services (SCS) located in Lethbridge, Alberta and for a program entitled “*I’taamohkanoohsin “Everyone Comes Together”*” (ECT). The organization received a start-up grant for renovation and construction to the value of \$790,000 as well as operational funding of approximately \$13.4 million from October 1, 2017 to March 31, 2020. The current agreement, as amended, ends March 31, 2020; however, we understand this has been extended.

On March 20, 2018, the Province entered into a grant agreement with ARCHES, in respect of ECT. The grant funded amongst other things a program coordinator and cultural support worker. This grant is valued at approximately \$250,000 and is for the period from March 20, 2018 to March 31, 2020.

The funding in relation to SCS and ECT are as follows:

**Table 1: GoA Funding provided to ARCHES**

<b>Program/Initiative</b>	<b>Payment Description</b>	<b>Amount Paid(\$)</b>
SCS Start-up Grant	Start-up Costs – Capital and Operating	790,000
SCS Operational Grant	SCS- Operational and Capital	13,421,653
Opioid Indigenous Program - I'taamohkanooshin "Everyone Comes Together"	Opioid response grant payment	250,000
<b>TOTAL</b>		<b>14,461,653</b>

The grant agreement specified the number and cost of personnel as well as amounts available for office and administration costs.

ARCHES has received funding beyond the above from other sources; however, the funding provided by the Province was approximately 71% of the total reported funding received by ARCHES during the 2018-2019 Fiscal Year<sup>1</sup>.

In addition to specifying the amount that could be expended on various expenditure categories, the agreement required submission of an annual financial report and the depositing and maintaining of the funding in a separate interest bearing bank account.

The Province was apprised of concerns at ARCHES of non-compliance with the terms of the agreements. The specific concerns were deemed to require an examination and the Chief

<sup>1</sup> “Fiscal Year” means the period of April 1 in one year to March 31 in the next year.

Internal Auditor was requested by the Province to undertake the examination. The agreements included a clause allowing for a review of records held by the organization. This clause was exercised on March 4, 2020 in order to review grant expenditures and assess the validity of the allegations.

## 2.0 Scope

The expenditure review covers the period from October 1, 2017 to March 31, 2020 (Review Period) and was limited to the issues described in this report, as well as funding received from the Province in relation to the SCS and ECT programs and/or initiatives. This period was selected as it is the period of time covered by the initial grant agreements between ARCHES and the Province for the SCS and ECT programs and/or initiatives.

Our review focused on financial records and did not extend to email boxes or hard drives.

The review of credit card transactions and related supporting documentation was limited to credit card statements obtained on-site on March 4, 2020, and does not represent all of ARCHES' credit card transactions between 2017 and 2020. We used our professional judgement in selecting the credit card statements to be reviewed, based on the amounts and types of transactions contained in those statements, as they may relate to the specific areas of review.

## 3.0 Scope Limitations and Assumptions

Due to the state of ARCHES' records and the nature and extent of outstanding items, we have not been able to completely quantify the financial value attributable to our findings or the areas of review. Our findings are based on the documentation received and reviewed.

A number of financial records were not able to be located by ARCHES or the Board for the expenditure review.

To the extent that we receive additional information our findings herein may require revisions.

To the extent that adjusting journal entries have been posted to reclassify amounts initially coded to SCS to outside of the SCS general ledger, we have not been able to identify these based on the information provided as at the date of this report.

We reserve the right, but will be under no obligation, to review this report, and if we consider it necessary, to revise our report in light of any information, which becomes known to us after the date of this report.

We express no opinion as to whether the information presented in this report is sufficient to establish civil or criminal wrongdoing, as only a court can determine these matters.

This report has been based on the information, documents and explanations that have been provided to us and therefore the validity of any conclusions noted rely on the integrity of such

information. We have not investigated the accuracy of any third party information, nor have we performed any investigative procedures to independently verify the accuracy of any third party information. Should any of the information provided to us not be factual or correct, or should we be asked to consider different information or assumptions, any conclusions set out in this report could be significantly different.

We did not perform a financial statement audit, review or compilation engagement for the purpose of expressing an opinion on, or creating, historical financial statements in accordance with standards established by Chartered Professional Accountants Canada.

Calculations presented in this report may be immaterially different due to rounding. Amounts have been rounded unless otherwise stated.

## 4.0 Summary of Results

We reviewed and analyzed certain financial information related to ARCHES and compared this to the relevant grant agreements and amendments thereto. Our findings are based on procedures undertaken such as interviews, on-site attendance at ARCHES, document review, and public record searches.

As of the date of this report, we have identified instances of non-compliance with grant agreements, ARCHES' policies and procedures manual, misuse of government funding and inappropriate governance. However, we have not been able to complete the grant expenditure review or to provide a complete financial value attributable to our findings or the areas of review, due to the state of ARCHES' records and the related outstanding documents.

Our four main observations relate to:

- a. Funding received from the Province;
- b. Headcount and compensation;
- c. Credit cards; and
- d. Maintenance of records, policies and governance

### **Funding received from the Province**

Funding received by ARCHES from the Province in relation to the SCS and ECT programs/initiatives have not been maintained within a separate interest bearing bank account as required by the grant<sup>2</sup> agreements. The funds from the Province and the related interest thereon have been co-mingled with other funding received by ARCHES, which is a contravention of the grant agreement. A senior executive of ARCHES, indicated that ARCHES had received verbal approval from the Department to comingle funding received. The grant agreements do not provide for verbal approvals.

At the time of our review, which was prior to year-end adjusting journal entries, we noted that the interest income of approximately \$13,000 earned on SCS funding received for the 2019-2020

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<sup>2</sup> 'Funding' is defined within the agreements as "the grant monies to be contributed...and includes any interest earned thereon."

fiscal year was recorded in an Internal Account general ledger (“**Internal Account GL**”)that contained entries for staff retreats, entertainment and gift cards. Based upon interviews conducted, the ARCHES’ Internal Account GL was used to fund items such as Christmas parties. Funding held within this Internal Account GL is derived from a variety of sources. Therefore, it is unclear what if any portion of the expenses was funded by interest earned on grant funds. Staff awards and recognition are ineligible costs under the agreement.

While the contract requires the maintenance of books and records for six years after contract termination, we were generally unable to locate any supporting documentation relating to the expenditures for the 2017–2018 fiscal year. Grant amounts provided by the Province for the 2017-2018 fiscal year were \$1,617,094 and the total value of ARCHES program expenses according to the audited annual financial statements for the 2017-2018 fiscal year is \$1,731,886.

### **Headcount and compensation**

We attempted to assess the total number of employees within the SCS and ECT programs compared to the Fulltime equivalent (FTE) grant numbers. We received various types of reports from ARCHES regarding headcounts for the SCS and ECT programs/initiatives. While the headcount numbers provided were greater than those provided under the grant agreement, we were unable to convert the numbers to FTE numbers to verify compliance with the agreement. It should be noted that despite this, the overall salaries and wages expense is within the SCS budget.

On an absolute basis<sup>3</sup>, the total number of employees within the SCS and ECT programs were noted to be greater than those approved under the grant agreement by between approximately 32 to 126 employees for SCS and one to three employees for ECT. Due to the varying total number of employees between sources obtained from ARCHES, we are unable to provide an exact quantification in relation to the number of employees, however all numbers received were greater than the amounts outlined within the grant agreements on an absolute basis.

The payment amounts dispersed with respect to the ECT program in relation to salaries and benefits exceeded the amount allocated within the grant agreement by approximately \$16,000 at the time of our review, which was prior to year-end adjusting journal entries.

Between November 2017 and March 2020, the portion of a senior executive of ARCHES’ salary recorded for SCS related services was approximately \$200,000 greater than the amount allocated within the grant agreement for the individual FTE line item. This amount is comprised of both salary and overtime. Of this amount approximately \$117,000 relates to 2019-2020 fiscal year as at the time of our review and prior to year-end adjusting entries.

ARCHES is permitted to re-allocate funding between expense categories provided that prior written consent is obtained from the province. We have identified written correspondence requesting a reallocation by ARCHES on a total basis and this appears to have been granted; however, the reporting received from ARCHES to the Province does not reflect any grant re-

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<sup>3</sup> This basis does not take into consideration the adjustments required for FTEs.

allocations therein.<sup>4</sup> We were informed by a senior executive of ARCHES that at times Province verbally communicated that the focus was on total spend rather than the individual line items. While the budget within the agreement is detailed the unaudited financial reporting for grants to the Province is at a more summarized level.

### **Credit cards**

We noted that expenses related to international travel, and gift cards have been charged to ARCHES' credit cards to the value of approximately \$9,173 and have been recorded within the SCS account and the Internal Account GL. Based upon discussions with a senior executive of ARCHES, we were informed that \$2,100 in gift card expenses were incorrectly charged against the Province's grant. Expenditures related to international travel are not prohibited in terms of the grant agreements.

As part of our analysis, we identified two reimbursements to SCS for personal expenditures made by a senior executive of ARCHES. A member of the ARCHES Board stated a reimbursement was made by a senior executive of ARCHES on April 7, 2020, after the completion of the on-site visit. A senior executive of ARCHES stated that, prior to the on-site visit, there had been attempts to confirm the amount owed. No further reimbursements were identified within ARCHES financial records in relations to the executive director of ARCHES and no further refunds have been brought to our attention as of the date of this report.

### **Maintenance of records, policies and governance**

Overall ARCHES' records have not been adequately maintained. Controls around credit cards usage appears to be weak. We could not locate petty cash reconciliations or documented evidence of vendor due diligence. There were instances where personnel files were not up to date and timesheets to support paystubs were missing. The organization charts was requested but were not readily available. It was provided to us at the end of the day once they had been updated and reviewed.

Reallocations within accounting records are only completed on an annual basis which does not align with ARCHES' unaudited interim financial reporting provided by ARCHES to the Province on a biannual basis.

We noted the following instances of non-compliance to ARCHES' policy and procedures manual:

- a) Personal conflicts of interest: relatives were hired and/or utilized as vendors without an appropriate declaration;
- b) Recruitment: individuals were hired without job postings;
- c) Overtime: payments prior to the achievement of the outlined minimums hours as outlined within ARCHES' overtime policy; and
- d) Credit cards: payment without supporting documentation.

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<sup>4</sup> "The Grant Recipient shall use the funding during the period November 1, 2017 to March 31, 2020 only for the purposes and expenditures and within specified budget allocations described in Appendix A, subject to the guidelines in Appendix C, and the Grant Recipient shall not use the Funding for any other purpose without the prior written consent of the Province."

We were informed by a senior executive of ARCHES that conflict of interest declarations were made to and managed by the board. The Board minutes acknowledged an assessment and concluded that there was not a conflict however, the Board minutes are not specific about the type of work, timelines and ongoing monitoring of the relationship. It is the recollection of a Board Director that the approval was for a one time project rather than an ongoing relationship.

A senior executive of ARCHES further outlined that missing receipts may be located within email correspondence of the ARCHES' finance personnel. We have not collected or reviewed email data to search for this information, as part of our review.

In an interview with a Board member, he/she advised the Board had relied upon a senior executive of ARCHES to manage the financial aspects of the organization. The ARCHES' Board does not have any members at present with financial expertise.

Weak internal controls, inadequate operational procedure documentation, a Board lacking financial acumen and potentially overbearing management based upon interviews held, have resulted in ARCHES having inadequate maintenance of its accounting records. As a consequence of these weaknesses expenditures and the appointments of employees are being approved counter to ARCHES' policies and in contravention of the grant agreements with the Province.

## 5.0 Observations

Based upon our grant expenditure review, we have noted that ARCHES has not in all instances complied with their requirements, as outlined within the grant agreements, or ARCHES' organizational policies.

We summarized our observations into four key areas, which included the following:

- a. Observation 1 – Funding received from the Province;
- b. Observation 2 – Headcount and Compensation;
- c. Observation 3 – Credit Cards; and
- d. Observation 4 – Maintenance of Records, Policies and Governance

### **Observation 1 – Funding received from the Province**

We understand that as of February 13, 2020, ARCHES had received funding from the Province in relation to the SCS and ECT Programs, to the value of \$14,461,653.

ARCHES initially maintained nine separate bank accounts, one of which was dedicated to SCS, these accounts were subsequently consolidated to streamline their operations, and as a result the Province funds have now been co-mingled with funds received from other sources.

The agreements between the Province and ARCHES in respect of SCS and ECT required that the grant recipient “*deposit and maintain the Funding in an interest bearing bank account...separate from all other monies of the Grant Recipient*”. ‘Funding’ is defined in all the agreements as “*the grant monies to be contributed...and includes any interest earned thereon.*” Therefore, it was

expected that ARCHES would maintain a separate interest bearing bank account for funding received from the Province, as well as any interest earned on the funding.

The agreements further required that ARCHES utilize the funds for the performance of activities related to the projects, as defined within the agreements.

We identified deposits within ARCHES' bank accounts related to the SCS Province-funded program, as detailed below:

**Table 2: Summary of Province funding received by ARCHES in respect of SCS Program**

<b>Grant name</b>	<b>Amount (\$)</b>	<b>Date received by ARCHES</b>
<b>SCS Start-up Grant</b>	475,000	1-Nov-17
	315,000	22-Mar-18
<b>SCS Operations Grant</b>	827,094	8-Jan-18
	827,499	31-May-18
	827,499	7-Aug-18
	3,315,020	4-Oct-18
	925,018	19-Mar-19
	5,025,302	24-Apr-19
	1,674,222	4-Feb-20
<b>Total</b>	<b>14,211,653</b>	

On March 26, 2018, \$250,000 was paid from the Province to ARCHES in respect of the ECT program. This was deposited into the Lethbridge HIV connection Society's savings account on April 11, 2018.

In addition to the receipts in Table 2 above, we identified deposits totaling \$612,614 between February 2018 and March 2019, which were unrelated to ECT and SCS, based upon the schedule of payments received from the Province. These additional deposits range from \$179 to \$100,000. Although, the purpose of the deposits are unclear as at the time of this report they appear to contravene the grant agreements, which required that ARCHES maintain the funding in an interest bearing bank account, separate from all other monies of ARCHES.

The ARCHES Finance manager confirmed during our interview on March 4, 2020, that ARCHES had separate bank accounts at one stage, but the organization had utilized only one account for transactions for the past three years. According to an ARCHES senior executive this had been verbally approved by the Province at a point in time; however, the agreement does not allow for verbal approvals.

Based on analysis of the bank accounts and the interviews conducted, as outlined above, the Province's funding has been co-mingled with funding from other sources.

## **Interest earned on Province funding**

The SCS Savings Account, was opened on June 13, 2019 with a \$3 million deposit transferred from another of its bank accounts. As at January 31, 2020, this account has generated approximately \$13,000 in interest, and had a balance of \$629,096.

The interest income outlined above was not recorded in the SCS-specific GL as was the case for the Province's funds received, but was recorded within the ARCHES Internal Account GL.<sup>5</sup> Based upon discussion with a senior executive of ARCHES this interest was to be reallocated to SCS as part of year-end adjustments, which had not occurred as at the date of our on-site visit.

## **Internal Account GL**

We analyzed the Internal Account GL for September 2017 to March 2020. The total income recorded within this GL is \$41,749. It was noted that \$12,892 (31%) of this income originated from the Province's Funds. Other income recorded related to a "rent allocation" totaling \$26,700 (64%) and other smaller receipts totaling \$2,157 (5%).

Of the \$19,537 expenses recorded within the Internal GL, \$9,900 (50%) relate to an ARCHES senior executive's relative. This individual was hired by the senior executive of ARCHES to participate in a "*point in time count*" of homeless people in the City of Lethbridge. In addition this individual provided further assistance to ARCHES by providing "*assistance for application for SCS...*", and development of a hazard assessment. We were not able to locate a personnel file or resume to support the qualifications of the person employed for this work.

The individual's expenses were recorded in two transactions; however, it is unclear what the description related to. Based upon discussions with an ARCHES senior executive these expenses were approved by the Board and the appointment of this individual was brought to the Board's attention. He/She did not report directly to the related senior executive of ARCHES. The Board minutes acknowledged an assessment and concluded that there was not a conflict however, the Board minutes are not specific about the type of work, timelines and ongoing monitoring of the relationship. It is the recollection of a Board Director that the approval was for a one time project rather than an ongoing relationship and was only discussed once with the Board regardless of their ongoing signatures on the cheques for this relative.

Other expenses within the Internal Account GL related to meals, mileage and gas for staff retreat and gift cards and other staff events. The total spent on staff retreats of \$7,557 includes one VRBO expense of \$2,186 for a trip to Invermere, BC in August 2019. Based on a hand written note attached to this expense, this amount was to be charged to SCS, an ARCHES senior executive informed us that this was an error and provided supporting documentation outlining that this was charged to the Internal Account GL. Gift cards described in the Internal Account GL as for Board members totaled \$1,129. We understand that gift cards were provided to ARCHES' employees and Board members at a Christmas party. A total of \$951 was recorded for staff events.

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<sup>5</sup> Note that we were able to trace \$12,841 interest generated in the bank accounts to the Internal Account GL. We also noted an additional \$51 interest income indicated in the Internal Account GL as having originated from the SCS savings account. We are unable to trace interest generated on December 31, 2019 (\$839) and January 31, 2020 (\$532) to the Internal Account GL as the interest income entries in that GL end in November 2019.

As noted above, funding held within this GL is derived from a variety of sources. Therefore, it is unclear what portion if any of the above expenses were funded by interest earned on the Province's funds. Note a senior executive of ARCHES stated that this interest was to be reallocated at year-end to SCS.

The grant agreements between ARCHES and Province stipulated that the funding received was solely for activities defined within those agreements. Therefore, it is unclear why ARCHES has allocated interest earned on the Province's funds into an account which is utilized for items that appear to be ineligible under the grant agreement.

Based on the above it appears that interest earned on the Province's funding has not been utilized in accordance with the grant agreement and has been co-mingled with other funding.

## **Observation 2 – Headcount and Compensation**

### **ECT and SCS Employees**

We attempted to assess the total number of employees within the SCS and ECT programs compared to the FTE grant numbers. We received various types of reports from ARCHES regarding headcounts for the SCS and ECT programs from human resources, payroll and an internal employee list. While the headcount numbers provided were greater than those provided under the grant agreement we were unable to convert the headcount to FTE numbers for comparison purposes based upon the information provided. In addition, none of the amounts received agreed to each other and all exceeded the grant agreement's budget for the number of employees on an absolute basis

### **ECT payment summary**

The ECT grant states that, *“The Grant Recipient may request approval of the Province for retention of unexpended Funding. Such a request must be submitted to the Province's Representative. The request should identify the amount of the unexpended Funding, the proposed budget allocation and the time frame in which the unexpended Funding will be used. The request must be submitted within sixty (60) days of the expiry date of this Agreement. The Province may approve retention of unexpended Funding and such approval, if granted, may be subject to any further conditions prescribed by the Province including, but not limited to, submission of further supplementary reporting.”*

As per the ECT grant, ARCHES budgeted \$105,997, after benefits, per year for salary costs. The ECT employee earnings summary for the 2018-2019 fiscal year stated total salary costs and related benefits of \$90,198; indicating that ARCHES had underspent their budgeted amount by \$15,799.

The unaudited reporting the Province received from ARCHES for the financial reporting period March 20, 2018 to March 31, 2019 stated the actual salaries and benefits cost to be \$95,313. This differs from the ECT employee earnings summary amount of \$90,198 by \$5,115. During our review, it was noted that the ECT employee earnings summary for the 2017-2018 fiscal year provided was blank, as such it is assumed that all amounts relating to salary and benefits for ECT

began April 1, 2018. The additional twelve days before the beginning of the fiscal year are assumed to be included in the earnings summary for the 2018-2019 fiscal year.

ARCHES has a year end of March 31. As at the date we obtained the employee earnings summary, the fiscal year had not yet been completed. As such, the grant amount has been prorated to reflect 50 of the 52 weeks completed in the fiscal year, amounting to \$101,920 of the \$105,997 budgeted for the total year. Per the employee earnings summary for the 2019-2020 fiscal year, ARCHES spent \$133,727 so far, exceeding their budgeted cost by \$31,807. The payment amounts disbursed with respect to the ECT program in relation to salaries and benefits exceeded the amount allocated within the grant agreement by approximately \$16,000. We do note that this was at the point in time of our review, which was prior to year-end adjusting journal entries. In our discussions with an ARCHES senior executive it was noted that there was an individual incorrectly coded to ECT which would need to be reallocated to SCS for the 2019-2020 fiscal year.

Considering the under spent amount of \$15,799 in the first year and the over spent amount of \$31,807 in the second year, ARCHES' overspent the salary amount within the ECT grant by a net amount of \$16,008. See Table 3 below.

**Table 3: ECT Compensation**

<b>Fiscal Year</b>	<b>Grant Agreement (\$)</b>	<b>Employees Earnings summary (\$)</b>	<b>Overspent (Underspent) (\$)</b>
2018-2019	105,997	90,198	(15,799)
2019-2020	101,920 <sup>6</sup>	133,727	31,807
<b>Total</b>	<b>207,917</b>	<b>223,925</b>	<b>16,008</b>

**SCS payment summary<sup>7</sup>**

According to the second amendment of the SCS grant, effective March 1, 2019, ARCHES budgeted \$5,277,897 after benefits for the 2019-2020 fiscal year. The SCS employee earnings summary for the 2019-2020 fiscal year stated total salary costs after benefits of \$4,908,709. As at the date we received the employee earnings, March 17, 2020, the fiscal year was not yet completed. For comparative purposes, the budgeted grant amount has been prorated to reflect 50 of the 52 weeks; making the total budgeted amount \$5,074,901. These amounts include the senior executive of ARCHES.

The above amounts included the senior executive of ARCHES salary costs, and has resulted in an underspent amount of \$166,192 before the fiscal year has come to an end.

<sup>6</sup> \$101,920 = (105,997 / 52) x 50

<sup>7</sup> We noted that the grant agreement indicated total casual benefits at 15%; however, the calculation was done incorrectly and the total casual benefits were calculated at 11.77%.

**Table 4: SCS salary cost, including the senior executive of ARCHES**

<b>Fiscal Year</b>	<b>Grant Agreement (\$)</b>	<b>Employees Earnings summary (\$)</b>	<b>Overspent (Underspent) (\$)</b>
2019-2020	5,074,901 <sup>8</sup>	4,908,709	(166,192)

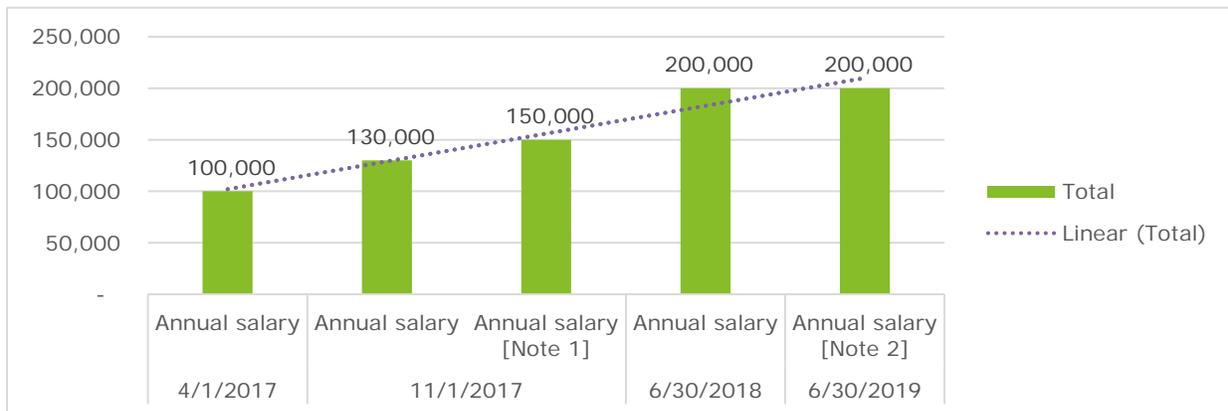
In an interview conducted with an ARCHES senior executive, he/she stated that the Province’s funds are able to be carried over, and as such this has been taken into account. An ARCHES senior executive provided an email dated March 28, 2019, in which he/she emailed a representative at the Province , “I just want to get confirmation that the surplus dollars from this fiscal year can roll over into next and be spent after March 31 and throughout the 2019-2020 fiscal year and that we do not need to request transfer of funds between line items as long as the bottom line stays the same?” The representative responded to a senior executive of ARCHES’ question on April 2, 2019, stating “The unspent funds from the 2018-2019 fiscal year automatically roll over to the 2019-2020 fiscal year because the term of this grant extends past March 31, 2019. Regarding the budget lines, a mid-year financial report and forecast is scheduled in this grant agreement (due Nov. 30, 2019). The actuals vs. budget under the individual budget lines will be provided by ARCHES in the mid-year financial report. Alberta Health will review and provide feedback at that time.”

We noted that no reallocation was made in relation to funding within the mid-year reporting provided to GoA for funds spent in the first part of the fiscal year.

**A senior executive of ARCHES’ Earnings**

We reviewed the personnel and payroll files for senior executives that were obtained on-site March 4, 2020. It was found that the senior executive began his/her employment with ARCHES on April 1, 2014 and that after a three month probationary period, his/her salary would be \$50,000 annually. The following figure shows a senior executive’s annual salary increases, excluding benefits, from April 1, 2017 to June 30, 2019. As at the date of this report, we understand that the senior executive’s salary is \$200,000 annually, excluding benefits. 80,000

**Figure 1 – Senior executive of ARCHES’ compensation increase (\$)**



<sup>8</sup> (5,277,897 / 52 weeks) x 50 weeks

Note 1: This increase was dependent on grant approval.

Note 2: This is the most recent document located within the senior executive of ARCHES' personnel file relating to his/her salary.

We reviewed the employee earnings schedules to assess the portion of total salaries and overtime attributed to SCS funding for this ARCHES' senior executive.

**Table 5: Comparison of a senior executive of ARCHES' total salary and overtime to SCS allocated salary and overtime:**

Source	Fiscal year		
	2017-2018 (\$)	2018-2019 (\$)	2019-2020 (\$)
<b>Employee earnings schedule (gross)</b>	<b>87,121</b>	<b>274,715</b>	<b>265,292</b>
Salaries	87,121	274,715	194,620
Overtime	0	0	70,672
<b>SCS employee earnings schedule (gross)</b>	<b>37,762</b>	<b>139,364</b>	<b>202,448</b>
Salaries	37,762	139,364	149,233
Overtime	0	0	53,215

Note 1: Overtime amount of \$69,954 was processed as salary for fiscal year 2018-2019.

Note 2: On a calendar year basis, the gross earnings for a senior executive were: \$96,744 (2017); \$207,830 (2018); and \$342,943 (2019)

As recorded on the Employees Earnings Summary, a senior executive of ARCHES' SCS earnings for the 2018-2019 fiscal year amounts to \$139,364 before benefits<sup>9</sup>. According to the grant agreement a senior executive of ARCHES' half position should be \$80,000 before benefits. This resulted in a difference to the agreement of \$59,364 for the 2018-2019 fiscal year on salary and overtime. The total amount of the overpayment to a senior executive of ARCHES over the SCS grant agreement until March 17, 2020 is \$200,574 before the consideration of benefits.

**Table 6: Senior executive of ARCHES' Earnings vs. grant 2017-2018, 2018-2019, and 2019-2020 fiscal year (earnings includes salary and overtime)**

Fiscal year	SCS employee earnings summary (\$)	SCS grant agreement (\$)	Excess Allocation to SCS (\$)
2017-2018	37,762	14,000	23,762
2018-2019	139,364 <sup>10</sup>	80,000	59,364
2019-2020	202,448	85,000	117,448
<b>Total</b>	<b>379,574</b>	<b>179,000</b>	<b>200,574</b>

<sup>9</sup> A senior executive of ARCHES' benefits are "CPP - Company, EI - Company, RRSP and Alberta Blue Cross – ER" pursuant to the employee earnings schedule

<sup>10</sup> Note: we were only able to trace \$116,350 to payments via bank statements

We reviewed the GL and year-end adjusting journal entries for the 2017-2018 and 2018-2019 and fiscal years and could not identify a reallocation of the excess amount to other funding sources. The aforementioned amounts as at the time of our review were still recorded within SCS general ledger at the time of our on-site visit which was prior to year-end adjustments, if any.

**Table 7: Total benefits attributed to the senior executive of ARCHES (gross basis)**

Description	Fiscal year		
	2017-2018 (\$)	2018-2019 (\$)	2019-2020 (\$)
Benefits (CPP - Company, EI - Company, RRSP and Alberta Blue Cross – ER)	6,664	16,749	19,250

The following sources were reviewed in respect of the senior executive of ARCHES’ salary:

- a. Overall employee earnings summaries;
- b. SCS employee earnings summaries;
- c. General Ledgers;
- d. Paystubs;<sup>11</sup>
- e. Bank statements; and
- f. Payroll transaction listings.

*A letter from an ARCHES senior executive dated April 22, 2020, stated “As of the time of my leave the adjusting journal entries for payroll for 2019/2020 had not been completed as this is something that is done at the end of the fiscal year after [company] has reconciled all payroll. The adjusting journal entries are most important for the staff who are paid across multiple granting streams as [company] enters it all into SCS regardless (as it is the largest account) then later completes the journal entries to properly allocate pay to the respective granting stream upon consultation.”*

We reviewed a sample of the executive director of ARCHES timesheets and noted that overtime was included in certain instances; some timesheets were not approved.

### **Observation 3 – Credit Cards**

Based on our review of the credit card statements, we noted that funding has not in all instances been appropriately utilized based upon the requirements of the grant agreement.

Transactions noted in the credit card statements and supporting documents obtained on-site totaled \$57,097. These transactions do not represent the totality of ARCHES credit card transactions within the review period; rather, they were selected on-site, based on our professional judgment. Of the above transactions, we identified expenses of interest totaling \$13,350 recorded within the Internal Account GL and SCS GL.

<sup>11</sup> It was noted that there were salaried as well as hourly amounts found on paystubs. A letter from an ARCHES senior executive dated April 22, 2020, stated “The original finance department staff determined that for employees paid across multiple granting streams, an hourly breakdown was necessary to calculate the amount from each granting stream for the 70 hours per pay period.”

We noted that gift cards were purchased in the value of \$1,129. Receipts provided show that the purchases were for iTunes, Boston Pizza, Earls, Samba Browns, Gap Options, Shell, Visa Bows, Chapter, Cineplex, Amazon, The Keg, Moxie's Starbucks, Tim Hortons, MasterCard, Park Place Mall and Bath & Bodyworks. These expenses are recorded as "Gift Cards – Board Members" in the Internal Account GL. We understand that gift cards were provided to ARCHES' employees and Board members at a Christmas party.

**Travel expenses**

We noted the following expense items which do not appear to be related to the allowable expenses in terms of the grant agreement (expenses of interest) from our review of sample credit card transactions:

- a. Expenses of interest not recorded on SCS GL: We noted transactions totaling \$2,186 for a trip via VRBO to Invermere, BC in August 2019. This expense was recorded as "Management Retreat Oct 4-6/19..." in ARCHES Internal Account GL, it is unclear what portion of the VRBO expenses were funded by interest earned on the Province's funds and other sources of income. A note was affixed to this expense stating that it should be charged to SCS.
- b. Of the travel related expenses of interest identified within the credit card statements, \$7,985 were recorded within the SCS GL, in respect of local and international travel. These travel expenses were incurred on two senior executives of ARCHES' credit cards. See Table 7 below for our findings in this regard.

**Table 7: Travel Expense**

Expense Country	Comments	Expense City	Amount spent (\$)
<b>Portugal</b>	<p>We understand from ARCHES senior management that some Management staff went to Portugal for a conference in Porto.</p> <p>Of the \$3,480 spent in Lavra and Lisbon, we did not note any supporting documentation for \$1,017 spent at Guerin Rent-a-car on April 20, 2019. An ARCHES senior executive refunded this amount to ARCHES on March 31, 2020.</p> <p>We also noted an accommodation expense of \$1,222 for two rooms at Holiday Inn, Lisbon on March 29, 2019. The reservation confirmation indicates that one of the rooms was reserved for two adults and two children, while the other was for an ARCHES senior executive. This amount was recorded within the SCS GL. An ARCHES senior executive refunded on March 31, 2019 \$626 in relation to the personal portion of this expense.</p> <p>In an email correspondence between the ARCHES Accountant/ Bookkeeper and an ARCHES senior</p>	Lisbon, Portugal	<b>3,446</b>
		Lavra, Portugal	<b>34</b>
		Porto	<b>2,464</b>

	executive on May 24, 2019, the Accountant/ Bookkeeper asked, "Can you tell me which cost code/centre you want the Portugal trip expenses to go onto". The senior executive of ARCHES responded "SCS please".		
<b>Unknown</b>	We did not see support documentation for a travel-related expense described as "Expedia" in the SCS GL. A handwritten note on the credit card reconciliation report states "need Receipts Expedia \$1235.53", implying that no receipt was provided for this expense as at the reconciliation date.  We were informed by an ARCHES senior executive that this expense was related to a hotel in Vancouver for business purposes.	Unknown	<b>1,236</b>
<b>Canada</b>	Expense relates to accommodation at Enoch, Alberta. The hotel reservation indicated an ARCHES senior executive as the guest and was for a room on 24 and 25 September. The SCS GL describes this expense as "Expedia".	Enoch, AB	<b>349</b>
	Relates to accommodation and parking expenses in Calgary. This amount was recorded within the SCS GL.	Calgary, AB	<b>321</b>
	Relates to accommodation and taxi expenses in Richmond, BC. Possibly related to the <i>Unknown</i> travel expense above, as they are three days apart. This amount was recorded within the SCS GL.	Richmond, BC	<b>135</b>
<b>Total</b>			<b>7,985</b>

### Non-travel expenses

We applied a \$200 threshold to the non-travel expenses on the credit card statements to identify transactions for further review.

We identified transactions totaling \$5,365 in the SCS and Internal Account GLs and bank statements, for which supporting receipts could not be located based upon our procedures or where we noted that the expenditures were not SCS related.

**Table 8: Non-Travel Expenses**

<b>Vendor name</b>	<b>Amount spent (\$)</b>	<b>Comments</b>
<b>Best Buy</b>	2,205	This expense is described as "Television" in the SCS GL, but no support was found for this item.

Vendor name	Amount spent (\$)	Comments
		We were informed by an ARCHES senior executive that this television was acquired for the ARCHES board room.
<b>The Oil Changer</b>	2,100	Expense was for three gift cards at \$700 each from The Oil Changer Ltd. on March 29, 2019. Handwritten on the invoice is "XX 1st Choice Card SCS - Maintenance". These items are recorded in the SCS GL as "Gift certificates"  We noted that \$2,100 in vouchers for the Oil Changer as at March 4, 2020 was held within petty cash.  We were informed by an ARCHES senior executive that this amount should have been allocated to non-Province funding sources.
<b>HBI Canada</b>	1,060	No support was seen for any purchase from this vendor. Preliminary web searches indicate that this vendor is a dealer in smoking accessories, but these expenses are described in the SCS GL as "Supplies".  We were informed by an ARCHES senior executive that this related to the acquisition of inhalation supplies.
<b>Grand Total</b>	<b>5,365</b>	

The expenses at Best Buy and The Oil Changer Ltd were charged to an ARCHES senior executive's corporate credit card, while the expenses at HBI Canada were charged to his/her credit card.

#### *Senior executive of ARCHES' reimbursements*

We reviewed SCS GLs from October 2017 to February 2020 to identify any amounts reimbursed by a senior executive of ARCHES to SCS within that period. Reimbursements identified from the senior executive of ARCHES within the period totaled \$868.

On April 6, 2020, we received an email from ARCHES Board indicating that an ARCHES senior executive had reimbursed an additional \$1,017 in relation to the trip to Portugal. We received confirmed the receipt of this reimbursement.

#### **Observation 4 - Maintenance of Records, Policies and Governance**

Through our review of the financial information, other documentation obtained and interviews held with various individuals, we have noted the following instances of inappropriate management of records, policy contraventions and items of concern related to governance.

## Maintenance of Records

Based upon an interviews conducted the following items of concern were identified with respect to the maintenance of records:

- a. Management of credit cards – credit cards are distributed to staff for requested purchases but minimal follow-up is conducted thereon.
- b. Petty cash - No petty cash reconciliations have been completed by ARCHES.
- c. Vendors - There are no formal vendor selection processes and no due diligence has been completed with respect to vendors.
- d. Record keeping - The accounting records from prior to July 2019 were in disarray and in many instances not locatable.
- e. Reallocations within accounting records are completed on an annual basis despite reporting to the Province more than once a year regarding SCS funding.

We noted three instances where the same senior executive of ARCHES was a second signatory on cheques issued to him/herself during the 2018-2019 fiscal year.

There are several instances within the accounting records where expenses have been paid without supporting documentation. An ARCHES senior executive stated that these receipts are potentially located within email correspondence.

During our review of a senior executive of ARCHES' payroll file, it was noted that corresponding timesheets were not present for all paystubs.

While on-site at ARCHES on March 4, 2020, we requested personnel files for select individuals. During a second interview with a senior executive of ARCHES in his/her office, he/she provided us with his/her own personnel file in which we witnessed him/her adding a new document prior to handing over the file. We noted that this document was an increase to a senior executive of ARCHES' benefit package, dated June 30, 2019. In this same interview, we noted that a senior executive of ARCHES' emergency contact information page was on his/her desk and not in his/her personnel file. In a third interview with a senior executive of ARCHES, we inquired as to why the document relating to the increase in his/her benefit package was not previously in his/her personnel folder, he/she indicated that those were papers which he/she had not yet filed.

During our review of ARCHES journal entries, it was noted that the journal numbers provided have varying formats and that journal entries are not sequentially numbered. On May 25, 2020 were informed by an ARCHES employee that *“I have noticed that there was no consistency to the coding of the journal numbers. [Firm] usually corresponds to an entry that was provided by [company] and either entered by them or us. Payroll entries have had many different formats assigned to them over the last year but they seem to be just defaulting to a number now. When you enter a journal entry, the system will just default to the next number but it can be changed to anything.”*

## **Policies**

We noted that ARCHES has a comprehensive policy and procedure manual which is available to all employees. Through our review of the financial information, other documentation obtained and interviews held with various individuals, we have identified the following instances of apparent contravention to ARCHES policies.

### **A. Personal Conduct Policy**

ARCHES policy 3.11 requires all employees, volunteers, and Board members to “*respect the obligation of their relationship with ARCHES to put loyalty to the Agency first, to declare any potential conflicts of interest, and to seek advice from management in the case of potential conflicts of interest.*”

We noted that gift cards totaling \$2,100 were purchased at a Vendor on March 29, 2019. We identified that an ARCHES senior executive is in a relationship with the owner of the Vendor.

We did not identify any conflict of interest declaration within the ARCHES senior executive’s personnel file. We were informed by an ARCHES senior executive that conflict of interest declarations were made and managed by the Board. The Board minutes acknowledge an assessment and conclude that there was not a conflict however, the Board minutes are not specific about the type of work, timelines and ongoing monitoring of the relationship. It is the recollection of a Board Director that the approval was for a one time project rather than an ongoing relationship.

### **B. Recruitment and selection Policy**

ARCHES policy 4.2 requires that:

- a. Staffing positions are filled with the best possible candidate.
- b. Job postings are advertised internally and/or externally.
- c. Resumes are screened by the interviewing manager.
- d. Interviews are conducted with a minimum of two interviewers
- e. Management reserves the right to request and contact references.
- f. Management may short list candidates and choose to complete a second round of interviews.
- g. If two internal candidates are short-listed with comparable skills, seniority will determine which employee is offered the position.
- h. Offers of employment will be written and include all terms of employment.

We noted the following contraventions of the aforementioned ARCHES employment policy:

- a. Five instances of individuals being hired for jobs that were not posted as required;
- b. One instance of an individual who did not appear to be suitably qualified for a role, based on senior management’s assessment of the resume on file;
- c. Two instances where it was noted that there were no resumes on file for the relevant individuals; and
- d. One instance where senior management indicated that an individual was hired but no interview was conducted.

### C. Overtime Policy

Section 4 – defines overtime as:

- a. *“...any hours worked in excess of 8 hours per day or 44 hours per week, in accordance with provincial Labour Standards. Employees will report actual hours worked on a daily basis on their time sheet.*
- b. *Any hours worked over and above an employee’s contracted hours will be banked at a 1:1 (one-to-one) ratio. Any such hours, worked above and beyond an employee’s regularly contracted hours, will be granted only if approved in advance, in writing, by management, using the Request to Bank Overtime form (see Appendix 14.6). Under all circumstances, overtime approvals will be capped at a total maximum of 10 hours per day.”*

With respect to a specific ARCHES senior executive, the employment letter indicates that “a member of the Board Executive (Chair, Vice-Chair and Treasurer) must sign your time sheet” and that “all overtime must be approved in writing by the Board Chair, as per policy”. On June 30, 2018 a salary increase letter for this executive indicates that “as this is a salaried position, overtime will not be accrued or paid out.” We did not locate information in the personnel file to indicate that the timesheet approval requirements had been rescinded. An ARCHES senior executive’s overtime hours were handwritten on his/her timesheets and frequently the hours claimed exceeded the 8 hour per day or 44 hour per week minimum. As a general practice SCS paid overtime at a rate of 1.5 times. However, for this senior executive overtime was paid at a lower rate generally based on the annual salary divided by expected regular work hours or in other words a 1 times rate.

On January 29, 2019, the Board retroactively approved a senior executive of ARCHES’ accrued overtime of 256 hours at that time, and stated that subsequent to this date no overtime would be paid unless Board approved. This is a contravention of ARCHES’ overtime policy, in that overtime should only be granted if approved in advance, in writing by management and post completion of the “Request to Bank Overtime” form. We only identified communication with the Board about overtime hours. We did not identify communication about the overtime rate that would be applied to this ARCHES’ senior executive overtime hours.

A June 30, 2019 letter indicates that a senior executive of ARCHES is to receive overtime payments on a quarterly basis. Based upon the review of the senior executive of ARCHES’ paystubs, there are four overtime payments from July 13, 2019 to October 4, 2019, totalling \$42,721, without any approval noted. After review of the Executive Director reports, it appears these four payments related to the 388.75 hours reported in both the October and November 2019 reports. There was no indication found in the BoD’s minutes as to whether or not this was approved to be paid out. The last indication of overtime approval within the BoD minutes was on January 29, 2019 approving overtime payments for the 2018-2019 fiscal year. These four payments occur in the 2019-2020 fiscal year. Therefore it appears that overtime payments have been issued to a senior executive of ARCHES without BoD approval based upon BoD’s minutes and paid more frequently than allowed. This is an apparent contravention of ARCHES overtime policy. However, it should be noted that the cheques paid to the senior executive of ARCHES have been signed by at least one member of the BoDs.

A letter from an ARCHES senior executive dated April 22, 2020, stated “*On overtime, when SCS opened in February 28, 2018 for 17 hours per day, an on call manager was required and I took on this role together with [another member of senior management] until 2019. Generally speaking in my capacity as [senior executive of ARCHES], I worked substantial overtime due to the needs of the organization and the need to be on call (always approved by the Board & in accordance with my employment agreement)*”.

#### **D. Corporate Credit Card Policy**

Section 13.6 of ARCHES policy manual contains a Corporate Credit Card Policy.

- a. *Corporate credit cards will only be used for appropriate business expenditures.*
- b. *Any expenses above the amount of \$200.00 (two hundred dollars) must be approved in advance of purchase by the Executive Director"*
- c. *"Employees that have been issued corporate credit cards are responsible for... retaining receipts and providing explanations for all card transactions"*
- d. *"The charging of personal expenditures to the corporate credit card with subsequent refund to the agency is expressly prohibited."*

A senior executive of ARCHES refunded \$242 to SCS on December 13, 2019, as a refund “*for amazon charges on credit card*”, based on this description it appears that the senior executive of ARCHES has utilized the corporate credit card held by him/herself for personal expenditure, and this amount was refunded; however, this is still a contravention of SCS policy, which expressly prohibits this action.

We noted expenses for purchases on iTunes totalling \$349 via a senior executive of ARCHES’ credit card between August 29 and October 8, 2019. No support was provided for these expenses, and they were described as “*iTunes*” in SCS GL.

This appears to violate ARCHES Corporate Credit Card policy which states, “*Corporate credit cards will only be used for appropriate business expenditures...Employees that have been issued corporate credit cards are responsible for... retaining receipts and providing explanations for all card transactions*”.

#### **Governance**

We noted that no member of the BoD of ARCHES has a financial background and, as a result, the ARCHES BoD lacks financial acumen and have relied on senior executive of ARCHES’ to provide guidance in this regard.

Based on an interview held with a member of ARCHES Board, in order to mitigate the risk associated with financial acumen, the Board instituted a requirement that the finances of ARCHES be audited annually. The Board directed that a senior executive of ARCHES, and the payroll office, would through this have access to financial advice at any time. A firm was contracted to provide this service.